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Correspondent of The National City Bank of New York.

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Economic Conditions
Governmental Finance
United States Securities

New York, November, 1921.

The Railroad Situation.

THE railroad problem at this time dominates the entire business situation. The burden of increased freight charges upon all kinds of industry, the plight of railroad finances, the efforts of railroad managers to reduce operating expenses, the impending railroad strike, the test of the efficacy of the new Railroad Labor Board as an agency of conciliation, and the demand in some quarters for the repeal of the Esch-Cummins law, are the outstanding features of the day, and present questions of the utmost importance.

Freight Rates and the Farmers

Deere & Co., of Moline, Illinois, one of the oldest and most reputable concerns manufacturing agricultural implements, have sent us copies of a letter received by them from a farmer living in the neighborhood of Culbertson, Nebraska, and of their reply thereto, which set out graphically present relations between the prices of farm products, prices of manufactured goods and transportation charges, and the effect of these abnormal relations upon business.

We have not the space to give the letters in full, but the following extract from the farmer's letter gives the gist of it. He says:

> I need a wagon and my dealer wants the price of 650 bushels of corn, the same wagon I could buy with 200 bushels of corn before the war. The harness man wants the price of a wagon load of hides for a No. 1 harness. I simply cannot see my way clear to buy wagon, harness or anything else that I can possibly manage to get along without.

Deere & Company make a lengthy and detailed reply, in which they first tell of the rise in the price of wagon stock in recent years due to the depletion of our forests, a factor of great general interest, but for which no immediate remedy is possible. They then go into the effect of increased freight charges, as follows:

> Our present price, F. O. B. Moline, on a farm wagon, is 100 per cent higher than our price of 1914. At this price we are selling this wagon at approximately 20 per cent less than our cost. The cost to you at Culbertson, Nebraska, however, does not bear the same relation to the pre-war price, for the reason that in 1914 the freight on a farm wagon from Moline to Culbertson was $1.37 a hundred; the present rate, including the war tax, is $2.32.
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> A farm wagon weighs 1200 lbs. The difference in freight of 95c per hundred makes the transportation on this wagon alone cost $11.40 more than it did before the war. The increased transportation costs upon the materials that go into the wagon are even greater than this amount.
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> When you come to pay for this wagon through the sale of corn in the Chicago market, you have a still greater disadvantage, due to the fact that corn has declined since 1914. The freight on corn from Culbertson to Chicago in 1914 was 24½c a hundred, or approximately 14c a bushel today, with the 3 per cent war tax included, it is 47c a hundred, or approximately 26c per bushel, so that you pay 12c a bushel more to get your corn to Chicago than you did in 1914.
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> You state that it requires 650 bushels of corn to buy a wagon today. At 12c a bushel increased freight this means that you are paying the railroads $78.00 more transportation on the corn necessary to buy this wagon, therefore your increased contribution to the railroad company in getting this wagon out there and shipping corn enough to Chicago to pay for it, is $89.40.
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> You can well see from this that it is absolutely impossible for any of us to get back to a normal basis of prices until the cost of transportation is very materially reduced. You ask us when conditions will change; we tell you, when transportation costs are gotten back upon a reasonable basis. The great difficulty in getting this adjustment now is the expense the railroads are put to for labor, for example, here in this community, while the going rate of labor is 30c an hour, at the Rock Island shops 43c per hour is being paid for eight hours a day and time-and-a-half for overtime, with the proviso that if more than one hours' overtime is worked, even though it be ten minutes, five hours' additional compensation is charged. Locomotive engineers are getting from $3,500 to $5,000 a year. A good deal the same condition maintains in our coal mines.
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> We all must work, through our congressmen and through a united public sentiment, to secure a readjustment of these railroad and mining costs before any of us can hope to resume business in a normal way. As far as we here are concerned, we have already made substantial reductions in our prices and expect to continue to do so in future as reduced costs of production permit. We are continually operating at a very substantial loss. The business world, outside of transportation and mining, has gone as far as it can until it gets relief through these channels.

The letter goes on to work out the effect of the increased freight charges upon the prices of farm implements, but the factors are practically the same as in the case of the wagon, outside of the factor of wood stock. The farmer's buying ability is calculated on the basis of corn at 60 cents per bushel in Chicago, but this letter was written in Au-

Those desiring this Letter sent them regularly will receive it without charge upon application

gust, since when corn has suffered a heavy decline, the present price being about 47 cents. As country dealers in the tributary territory buy on the basis of the Chicago market, the Nebraska farmer would now get 13 cents per bushel less than when the foregoing calculation was made, and have to give a correspondingly larger amount of corn to buy a wagon, or anything else.

Calculation by Department of Agriculture

Professor George F. Warren, of the Bureau of Farm Economics, Department of Agriculture, Washington, formerly of the New York State College of Agriculture, and unquestionably one of the best authorities in the country upon economic subjects directly related to agriculture, has made a calculation, recently published by the Department of Agriculture, of the purchasing value of the principal farm products, measured in other staple products and compared with their purchasing value in the same products before the war. The summary is as follows:

"Compared with a 5-year average before the war as 100, the purchasing power of some farm products at prices paid to farmers in June, 1921, were as follows: Corn 61, oats 60, barley 53, wheat 93, rye 101, buckwheat 101, flaxseed 55, beans 81, corn 56, cotton 51, cottonseed 52, hay 68, cabbage 111, onions 73, potatoes 64, sweet potatoes 89, peanuts 48, apples 91, chickens 116, eggs 77, butter 83, milch cows 80, beef cattle 69, veal calves 73, sheep 66, lambs 79, wool 58, hogs 67, horses 45. Practically nothing that the farmer sells can be exchanged for the usual quantity of other things. It is physically impossible for farmers to absorb the products of factories. Farm prices have dropped much more than wholesale or retail prices of farm products."

Necessity for General Readjustment

Of course there are other factors than freight charges in the increased cost of farm wagons. It is safe to say that the employes of Deere & Company are all getting higher pay than before the war, and that is true of the workmen in all the industries supplying materials. Deere & Company do not discuss the wages of their own force, but they make a frank statement about general conditions and about their own business, as follows:

At the beginning of the war farm products went up much faster than the products of labor and for a time the farmer had all the best of it. In the readjustment period after the war, which we are having now, the reverse is true. It is going to take some time to get labor costs readjusted to the new plane of living so that the farmer's purchasing power will be relatively what it was before the war. Things are going to get better from day to day and we are all facing the future with optimism, knowing that this readjustment is going to be a little slow in coming but confident that it will finally work out in the right way.

Please understand that the farmer is not the only one who is bearing burdens now; our own losses in the business this year will be greater than the profits of any year during the war, nevertheless it is our purpose to "carry on" believing that our country is sound and that ultimately all things will come out in the right way.

The situation of this important company is paralleled by a great many industries.

It is understood that the implement business generally this year has been only about one-third of normal. It is hit a little harder than some others not so directly related to agriculture, but directly or indirectly the loss of purchasing power sustained by such an important body as the farmers affects every line of business. It is the fundamental cause of the existing unemployment, and the sooner every class of people, including wage-earners in the town industries, and the farmers themselves, understand that all interests are suffering by it, the better it will be. The situation is complicated and made vastly more difficult by class suspicions, and efforts to obtain class legislation and to put the interests of classes above the common interests. The interests of every class will be best served by a harmonious readjustment of their relations, according to sound economic principles.

The Unbalanced State of Industry.

For now more than a year we have been endeavoring from month to month to describe the situation and to point out that prosperity would not return until a general readjustment of wages and prices had been accomplished. In the issue of this Letter for December, 1920, we said:

Manufacturers, merchants, labor leaders, owners of stocks in railroads and industrial companies—everybody in business—are asking how long this depression which is spreading over industry is likely to last. Nobody can tell the length of time, but it is not difficult to name the principal condition necessary to a revival. The prices of what the farming population wants to buy must come down to correspond with the prices of what it has to sell. Until then the state of reciprocity which is necessary to the full employment of labor and general prosperity cannot exist. The equilibrium must be restored. There will be no confidence in the situation until the equilibrium is restored. Merchants are not going to buy goods which they know their customers are unable to buy, railroads will not buy equipment to carry goods which will not be bought, construction work will be at a standstill, enterprise will be dead, until a basis of fair exchange for the products of the industries is reached.

This is not a matter of resolution, resentment, or concerted action. It results from the character of trade relations, from the fact that all business consists of an exchange of services. What one class of producers does not get, it cannot spend. With trade relations out of balance the circulation of goods must be curtailed. * * * Neither the farms nor the towns can buy the products of the other except on a basis of fair exchange, and if the products or services of either are unfairly valued the entire industrial system will be disorganized. Wages and farm products went up fairly well together, and it is a mistake to think that they are not coming down together, for they are tied together by the economic law.

* * * It must be borne in mind that the cost of living is not something imposed upon the wage-earning class from above or from the outside; it is largely dependent upon the wages they insist upon having and their own attitude toward their work. They should not disclaim their proper share of responsibility for the cost of living, or think they can make someone else bear it. Nor can they, any more than any other class, escape their share of the re-

sults of ills and calamities that afflict the world. They may say that they are not responsible for the war or the disorganization of industry which has resulted from the war, but these costs must be borne by society as a whole, with every member bearing some share.

The World Situation

The war brought about certain changes in the price level, mainly through the necessity that existed for Europe to obtain greatly increased quantities of food stuffs and raw materials from this country. With the war over, grain production in Europe outside of Russia is back almost to the pre-war production. Taking account of the diminished purchasing power of Europe, its demands upon the United States have fallen very greatly. A committee of business men representing the Chamber of Commerce of the United States, headed by Mr. Defrees, of Chicago, its president, has recently made a tour of Europe and issued a printed report upon conditions, in which they say that upon a conservative estimate, "the consumption of 300,000,000 people in Europe has been reduced to not over 30 per cent of what it was before the war." This loss of purchasing power has affected trade and industry all over the world, and men are intellectually blind who think they can ignore such conditions.

That certain farm products, such as corn and cotton, will regain some part of the declines they have suffered, may be expected, but there is no prospect of a return of farm products generally to war prices. Ultimately, Russia will resume her position as an exporter and competitor in western Europe. It is necessary, therefore, to look forward to a readjustment of trade relations between the industries upon a lower level of money values. Any theory that present levels can be maintained for transportation charges and manufactured goods when farm products and raw materials have fallen to pre-war levels is fallacious.

Attitude of the Labor Organizations

It would save a great amount of agony if these simple economic propositions could be understood. It does not pay to disregard facts. They are neither friendly nor unfriendly to labor; they are the same to everybody, unemotional and unyielding. They may be denounced and heads may be bruised against them, but they will not be disturbed. The wise man takes account of them and adapts his policies to them.

Unfortunately the labor organizations have been unable or unwilling to see that the market for their services no longer exists at the old rates of pay, and that it was not only just to the great agricultural population that wages in the other industries should be reduced, but for the best interests of the wage-earning population itself.

They do not see that the economic law already has forced a great reduction of actual wage-payments, which is what really counts. It means nothing to the wage-earners to have the rates high if there is no work to be had, or work only part time.

Mr. Lee, head of one of the railroad brotherhoods, has given out a statement in which as an argument against wage reductions in the railroad service, he says:

> There are thousands of these men out of work, many of whom have as high as fifteen years' service, because there is no need for them, while thousands of others have to try to live on a few days a month, which is all the railway service requires from them. Let it be understood that no transportation wages are paid unless the time is made.

A similar argument is offered in behalf of very high wage rates for coal miners. It is said that while the rates are high the miners have work only part time, and on the average make only very moderate wages.

These arguments illustrate the importance of paying some attention to economic law. It is impossible to restore prosperity on the basis of double pay for half time work. If the labor organizations insist upon any such policy they will protract present conditions until they have learned the economic truth that an abundance for consumption depends upon ample production. Every man who works for wages should read how the short cotton crop has recently advanced the price of raw cotton and cotton cloth. There is no difference in economic effects between the ravages of the boll weevil and the policy of half-time work in the industries.

High Wages Force Unemployment

The fact is that wages are so high that they force unemployment, the public not being able to buy the products at the existing level of costs. The story of the farm wagon illustrates the whole situation. If wagons cannot be sold, less coal will be used in the factories and fewer trains will be moved on the railroads. It is probable that much corn will be burned for fuel this winter, which means that less coal will be mined and the railroads will lose the transportation of both coal and corn. Moreover, the high costs of transportation and of mining coal come back to the wage-earner's door, added to the cost of everything he buys.

Broadly speaking, the people in the town industries must sell their goods and services either to the country people or to themselves. It is plain that the former cannot take their usual share at present prices, and the town populations have nothing to gain by holding up the cost of living on themselves. A general reduction of industrial costs would accomplish two very desirable objects, to wit: provide work for the unemployed and lower the cost of living for everybody.

The Scarcity of Capital

It is taken for granted as in the interest of the wage-earning class that the well-to-do who are able to continue to pay the present high living costs should be required to do so, but if their living costs were lower they would be able to buy more or invest more (which is the same thing) in either case creating a larger demand for labor.

It is taken for granted that if a rich man embarks upon house-building as an investment, the wage-earning class benefits by making houses cost as much as possible. But if the cost is 100 per cent above normal, the investor's capital will put up only one house instead of two, only one-half as much labor will be employed and the rents which labor must pay will be correspondingly higher. The amount of construction work of all kinds is limited today by the amount of capital available. If the wage-earning class absorbs this available amount in half-time work, it will go idle the other half and lose the benefits that would come with an increase of the productive equipment and facilities that minister to the comfort of all the people.

Why Not the Easier Way?

Until these simple economic truths are comprehended, the present slow, grinding, heartbreaking process of readjustment must continue, with millions out of work and many of them gradually eating up the little savings they had made.

After every experience of this kind is over, the wonder is that the inevitable end was not foreseen. The British coal strike last Spring cost the miners over $300,000,000 and the other wage-earners of the country a very large sum through enforced unemployment. The British government contributed $50,000,000 from the public treasury in the final settlement, to help in the temporary adjustment of wages, and lost more than that in declining revenues due to the falling off of business on account of the strike. All of that was clear waste, doing nobody any good. Each party suffered by reason of the losses of the other party. The employing class suffered because the loss of wages impaired the purchasing power of the wage-earning class, and this affected the output of all kinds of industries and reduced the consumption of coal even after the mines had resumed. On the other hand, the wage-earning class suffered through the losses of the employing class, as the latter had less capital to employ in industry and the demand for labor was lessened in consequence. All of these results might have been foreseen, if any account had been taken of economic conditions.

Such experiences bring to mind the reunion of the surviving veterans of the opposing armies of the great battle of Gettysburg, which took place on the historic field upon the 50th anniversary of the battle. They ate and drank and slept together, toasted each other, and told what profound respect they had learned to have for each other, which was all very well for those who survived, but what a pity they did not find out the truth about each other before they fought the battle in which thousands of as good men as the survivors lost their lives.

Errors of High Authorities

Of course the wage-earners are not the only people who fail to see that their own interests are best served by a study of mutual interests with other people. Business leaders and statesmen often show the same inability. In the Spring of 1919 British maritime interests wished to recover control of the White Star and other British lines, held by the International Mercantile Marine Corporation, an American company, and were ready to pay a good price for the stocks. The ships were of British registry and the companies, although controlled by American ownership of the stock, were British corporations, subject to British taxation, and since it was evident that the British wanted to regain control of the lines the American owners were willing to sell. It was tolerably clear that if the British could not recover their old ships they would build new ones.

The terms of sale were agreed upon, but before closing the negotiations the officials of the American company thought it proper to submit the transaction to the Government at Washington for approval, inasmuch as the Government was largely interested in shipping. To the surprise of everybody the Washington authorities disapproved of the sale and asked that it be called off. They didn't want any ships to get away from American control. So the sale fell through and the British proceeded to build ships. To make the situation still worse the Allies took all the German ships away from them, thus forcing more construction in that quarter, and now there are so many ships on the ocean that there is no profit in shipping for anybody. Most of the United States Shipping Board fleet is tied up, and the Congress is making appropriations out of the Treasury to pay the expenses of maintenance. The shipping business is overdone.

That story may be supplemented by the equally instructive one about the way the Spa Conference compelled Germany to send more coal to France than France needed, with the result that she sold it in outside markets, thus interfering with regular exports of British coal, contributing to break down the price and bringing about the coal strike, which hurt England much more than the value of all the coal delivered by Germany to France.

We do not say that statesmen are always wiser than workingmen, but that both will find it to their advantage to take account of economic law.

Labor's Stand for International Peace

The American Federation of Labor, under the leadership of Mr. Samuel Gompers, has taken a very strong stand in favor of Disarmament, or steps for the reduction of armaments. This means presumably that they believe that all disagreements between nations may be, and should be, settled by conference, negotiations and arbitration. It is an intelligent and enlightened view. It assumes that there is a just basis for the settlement of every dispute, according to the principles which every civilized country is interested in having maintained. The same considerations apply to industrial disputes. Every industrial disagreement is subject to settlement upon general economic principles which promote the common welfare. Every industrial contention should be brought to this test. It is just as desirable that these disagreements shall be settled by conference, negotiation and arbitration, without strikes, lock-outs, boycotts or physical violence as that international differences shall be settled by the processes of reason. A strike is a resort to force, no different in principle from a resort to military action.

The Railroad Controversy.

In discussing the wage situation it is important to bear in mind that many groups of wage-earners have exhibited a conciliatory spirit and have accepted very considerable reductions, but there are other groups who have not done so. The latter accept the benefits of reductions elsewhere but refuse to reciprocate, and their mistaken action inflicts hardships upon the entire community, not excepting thousands of their own number, by forcing them into idleness.

Among those who have pursued this illiberal policy the railroad employes are conspicuous, a fact that is the more surprising because as a group they are men of a high average of intelligence and character, who would be expected to have a quick understanding of the economic relationships involved and also a strong sense of the moral obligations to the public of a group performing an indispensable service.

It is an obvious fact that no single influence is more important in retarding the recovery of industry than the high freight charges which have been adopted for the purpose of enabling the railroad companies to meet the wage-increases, aggregating more than 100 per cent, which have been granted since the beginning of the war. The effect upon bulky commodities, such as farm products is shown by the correspondence above. The effect is vastly more serious because of the fall of prices, as freight charges have become a much larger percentage of the value of the products than they were before. It is authoritatively stated that the increased freight charges account for all the difference between the cost of iron and steel before the war and now.

The Wage Reduction of July 1st

The Railroad Labor Board in May last ordered a reduction of wages averaging about 12½ per cent, to go into effect July 1st last. In view of the vital relation of railroad charges to all of the industries, and the decline of living costs that had then taken place this reduction was a very moderate one. It left the railroad employes in a better position than they were before the general downward readjustment began. In its relation to wages and prices generally the readjustment of railroad wages at a reduction of 12½ per cent would have to be considered as an advance, for it increased their purchasing power over commodities.

There is plenty of evidence that the brotherhoods were quite willing to accept this reduction, but instead of frankly doing so the brotherhood leaders adopted jockeying tactics not in keeping with the dignity of the Government board with which they were dealing or with the importance of the issue to the public. They proposed to the railroad officials that they would accept the pending reduction if given a promise that no further reductions would be asked for. The officials of the companies properly replied that in view of the public interest in the costs of transportation they did not feel at liberty to make any such pledge. Then the brotherhoods took a strike vote, which is usually interpreted as a vote to back up the chiefs in their negotiations.

Movement for a Second Reduction

Meanwhile, the public demand for a reduction of railroad charges was increasing. The railroads had been granting reductions in specific rates, to relieve situations where the new rates obviously caused excessive hardship, until according to the statement of Mr. Daniel Willard, President of the Baltimore & Ohio, approximately one half of the income from the last rate increase was voluntarily surrendered. The presidents met again, and after the conference, on October 14, gave out a statement of which the opening paragraphs were as follows:

> **At a meeting of the Association of Railway Executives it was determined by the railroads of the United States to seek to bring about a reduction in rates, and as a means to that end to seek a reduction in present railroad wages, which have compelled maintenance of the present rates.**

An application will be made immediately to the United States Railroad Labor Board for a reduction in wages of train service employees sufficient to remove the remainder of the increases made by the Labor Board's decision of July 20, 1920 (which would involve a further reduction of approximately 10 per cent), and for a reduction in the wages of all other classes of railroad labor to the "going rate" for such labor in the several territories where the carriers operate.

The foregoing action will be taken upon the understanding that concurrently with such reduction in wages the benefit of the reduction thus obtained shall, with the concurrence of the Interstate Commerce Commission, be passed on to the public in the reduction of existing railroad rates, except in so far as this reduction shall have been made in the meantime.

This announcement of the railroad presidents looking to a second reduction of wages affords no reasonable basis for a strike, if the brotherhoods intend to give any consideration to the machinery provided by law for the settlement of such questions. The presidents announced their purpose to proceed in the regular manner provided by law to present their request to the Railroad Labor Board for its approval. There was not the slightest reason to suppose that they intended to take action without the approval of the Board.

For the brotherhood executives to call a strike because another reduction was to be proposed, must be regarded as a very erratic and unjustifiable proceeding to say the least. It looks like going a long way to meet trouble, and to make themselves aggressors, not to speak of the contemptuous treatment of an agency created by law to deal with just such situations.

Other Reasons

Three specific reasons are given by Mr. Lee for calling the strike, as follows:

1. The wage reduction of July 1.
2. Proposed further reductions.
3. Proposed elimination of rules, which would mean still further reductions.

It appears from this that the only offense that has been actually committed is the wage reduction that went into effect July 1, and which standing alone they have indicated their willingness to accept.

The character of some of the rules and regulations which Mr. Lee suspects may be in danger of revision may be judged by the following extract from a recent speech by Governor Henry Allen of Kansas. He was discussing the "make work" policy so often pursued by the labor unions, and referring to the great increase of employes on the railroads under government management. He said, further:

Recently I examined the new regulation of crafts in the railway business. One sample is sufficient to show the extraordinary effect that has followed the illogical expansion of the personnel. This typical case relates to the removing of a nozzle tip from the front end of a locomotive. Mechanically it is as simple an operation as the unhitching of a team of mules, yet here is the elaborate provision of the craft's regulation for performing this task.

It is necessary to send for a boiler maker and his helper to open the door of the boiler, because that's a boiler maker's job. Then you must send for a pipe man and his helper to remove the blower pipe, because that is a pipe man's job. Then you must send for a machinist and his helper to remove the nozzle tip, because that is a machinist's job. Thus they have used three master mechanics and three helpers to perform a simple task which in the pre-war days was performed by a handy man around the place who was called a helper. Has it brought prosperity to the railroad men? More railroad men are out of employment in the United States today than at any other time since the administration of Grover Cleveland. The doctrine of doing as little as you can for as much as you can get has killed the goose that lays the industrial egg.

Utterances of Brotherhood Chiefs

The utterances of the brotherhood chiefs, in discussing the strike have not been such as would tend to sustain the reputation that the heads of these organizations have borne in the past for intellectual calibre and sound judgment. Thus Mr. Stone, of the engineers is quoted as dismissing the suggestion of gains to the public by rate reductions with the comment that "the middlemen would get them all."

Mr. Lee asks:

Wherein is there justification for a demand that proposes to compel transportation employes to work under unsatisfactory conditions that do not include every other class of employers and employes?

If he as a railroad man does not know the difference in the eyes of the law between the railroad business and any ordinary business or occupation not vital to the life of the community, he is a long way behind the times for a man who holds the position he does in relation to railroad service. The owners of railroads had to learn that lesson long ago.

The chiefs have given out some amazing interviews upon the financial affairs of the roads, the machinations of Wall Street, etc., which it is charitable to presume were prepared for them, and into the truth of which they had never had opportunity to examine.

The Larger Railroad Problem.

The railroad problem does not consist entirely of the issue raised by the brotherhoods, although that is of fundamental importance. It involves not only the questions of proper pay for the employes and of the right of the employes to deprive the public of railroad service, but also the question of compensation for capital employed in the railroad service, and whether the roads shall be owned and operated by the government or by private parties.

These are large and grave questions, calling for a high degree of competency in the electorate. They must be passed upon with the kind of vision and judgment required of business men in the management of large affairs. Action should be guided upon economic prin-

ciples, with a view to aiding industry and serving the general interests, and with an understanding that those policies which serve society best will serve every class and division of society best in the long run.

The Regulation of Rates and Wages

In this country the public depends upon private capital to supply railroad service. It must continue to do so, unless the railroads are taken over by the government, and experience with government management of railroads, government management of shipping and government management of every kind, has proven that transportation service will cost more under government management than under the management of private companies. If we depend upon private capital, then we must allow it to earn enough to make investments in railroads fairly comparable in return to other investments. It is to the interest of the public that the capital invested in railroads shall have a fair return. It is good policy from the standpoint of the public to allow such a return—a necessary policy because otherwise the railroad service will deteriorate.

And so on the other hand it is both right and good policy to pay wages that will attract capable and trustworthy men to the railroad service.

The necessity for fair returns upon capital and fair wages for employes can hardly be the subject of argument, but how is the public to determine what is fair in both of these cases? Obviously it must be done through some public agency—a body of men representing the public. It is necessary to have organization—government—in order to carry out all social aims, and to put confidence in the agencies of government and sustain them. They are not infallible, and they are answerable to the public for the manner in which they discharge their responsibilities, but criticism of them should be well-informed and directed to specific faults of administration. It is a symptom of immaturity and social incompetency for people to raise a great outcry against a court or an administrative body simply because its decisions or actions run counter to what is popularly desired at the time. It is like the outcry of schoolboys against an umpire.

Two such Boards have been established to deal with the railroads and railroad employes—one the Inter-State Commerce Commission and the other the Railroad Labor Board.

The Valuation of Railroads

In 1913 because of the differences of opinion existing about the actual value of the railroad property, Congress directed the Inter-State Commerce Commission to undertake a detailed survey and valuation. The Commission established a subordinate organization for that purpose at the head of which was placed Mr. Charles A. Prouty, for many years a member of the Commission, and who commanded the confidence of that body. It may be added that Mr. Prouty had been throughout his service on the Commission one of the most aggressive champions of greater powers for that body, and one of the members in whom the critics of the railroads always had great confidence. Mr. Prouty virtually organized the valuation force, consisting of engineers and accountants.

The work of valuation is well advanced, and when the Esch-Cummins act went into effect, and it became necessary for the Commission to place a valuation upon the railroad property of the country as a basis for rate-making the Commission used the data that it had gathered as a means of reaching a tentative estimate.

It should be understood that this valuation for rate-making purposes is not based upon the amount of bonds and stocks outstanding, and therefore that the talk of "watered stock" in this connection has no foundation. This was definitely set forth by Mr. Edgar E. Clark, then chairman of the Inter-State Commerce Commission, before the Senate Committee on Manufactures last year when it had under consideration the Calder bill for the regulation of the coal industry. The question of railroad rates being up, the valuation of the railroads adopted by the Commission became a subject of inquiry by members of the Committee, as follows:

Senator Reed: How did you get at the value of the property? What is the general basis? Is it stocks and bonds? Is it physical value?

Mr. Clark: Stocks and bonds were not considered at all. The question of capitalization was not thought of. It is the fair value as closely as could be estimated and approximated at that time of the physical property which was devoted to the transportation service. We had a mass of information gathered in our valuation work, which is not in complete form to be given out in the form of reports and findings, and the transportation act specifically authorized us to avail ourselves of that information. We availed ourselves of all the information we could.

Senator Jones of New Mexico: Does that figure ($18,900,000,000) include the percentage arising from the increase in the value of materials and property in recent years, since the roads were constructed.

Mr. Clark: No, it does not attempt to equate the values. The principal figures that we used in our values are as of 1913 and 1914. We fixed the price units on a given railroad valuation as of June 30, 1914. Those price units we think were accurate, and they were based on experience of a series of years in the past up to that date, and the prices then prevailing, for the determination of what was up to that time the normal price for fixing the value of a box car, a piece of track or anything else. If, on a given railroad, we had made our figures on the basis of the valuation established, say, of June 30, 1913, we then computed the value of what the railroad had at that time. All that had been put in since that time, added, has been computed on its cost.

Senator Jones: Then the valuation which you have put upon the railroads is based more largely on cost than on present value, is it not?

Mr. Clark: Yes, sir. It is based on three different values that we determined. First, the cost of reproduction as of the date of valuation, then upon the cost of reproduction less depreciation, which represents the depreciated condition of the property as of that date, and then the actual cost to date.

Senator Pomerene: $18,900,000,000 was the best judgment of the Commission after going through all the data that had been gathered during all these years?

Commissioner Clark: Yes, sir.

Senator Pomerene: That should set at rest the charge that there is $9,000,000,000 of water in the railroads now.

That statement should be conclusive as to the basis of the valuations, particularly so far as the brotherhoods are concerned, for Mr. Clark formerly was head of the Order of Railway Conductors, resigning to become a member of the Inter-State Commerce Commission, to which he was appointed by President Roosevelt. He amply demonstrated his qualifications for the position by his service on the Board, where he rose to the Chairmanship, which he held at the time the valuation was adopted. Probably no member of the body has been more influential in recent years than Mr. Clark. It does not reflect, therefore, in any way upon the original appointment to surmise that in making it President Roosevelt was influenced in some degree by a desire to have a man on the Board who would understand the point of view of the employes, and in whom they would have confidence.

There is not the slightest reason why the railroad brotherhoods should refuse to accept the statements and judgment of Mr. Clark, but they seem to have preferred to employ Mr. Plumb to prepare figures to suit their purposes.

Supervision Over Capitalization Since 1907

In this connection it is worth noting that since 1907 the Inter-State Commerce Commission has had supervision over railroad book-keeping, and under its regulations no additions to the property investment account have been permitted except by the approval of the Commission and against actual capital investments. The property account on December 31, 1907, was $13,030,344,328 and on December 31, 1919, $20,124,908,615. Here then was about $7,000,000,000 added to the account under the supervision of the Commission in twelve years. The mileage of the roads increased in that time from about 236,000 miles to about 260,000 miles, or about 10 per cent. It is true that most of the capital expenditures in recent years have been for the improvement of existing lines, but with the Commission approving capital investments amounting to $7,000,000,000 in the last twelve years, is it probable, as asserted by critics, that the total investment in the roads is not now over $12,000,000,000? This would mean that the total cost of 236,000 miles of railroads up to 1907 was only $5,000,000,000, or less than $15,000 per mile, including terminals, equipment and working capital.

The Esch-Cummins Act

The Esch-Cummins law instructs the Board to adjust rates so that as closely as may be they will yield a return of 5½ per cent upon the actual aggregate value of railroad property, with a possible allowance of ½ per cent more to apply upon investments in non-productive improvements, such as track elevation, etc., which are in the public interest but do not directly increase earnings.

There is a great protest against the law upon the claim that it makes railroad investors a preferred class, by giving them a guaranteed return where no other business has a guaranteed return. This is a gross misrepresentation of the facts. The railroad business is in a class by itself, as a business in which charges and earnings are restricted by law. Government regulation of railroads is primarily for the purpose of limiting their charges to rates no higher than is required to yield a fair return upon the capital actually invested, 5½ per cent being named. If earnings rise above that figure, the charges are to be lowered.

A Rule Must Work Both Ways

It is fundamental that wherever earnings are thus specifically limited to an ordinary interest return some compensation must be given in the way of assurance of regular returns. If an investor may not participate in the ordinary business opportunities for profit in good times he should be protected from the losses of bad times. The regulation of railroad charges cannot be based upon the theory that capital invested in railroads shall have only 5½ per cent in good times and nothing in bad times.

That kind of a policy will not be beneficial to the public, because the railroads cannot be sustained on that basis. It is an attempt to get something of value for less than it costs, and of course it will fail. Any policy is short-sighted which will not maintain the railroads in position to obtain from investors the sums that are constantly needed for improvements—sums amounting to hundreds of millions of dollars per year.

Five and One-Half Per Cent as a Fixed Return

Five and one-half per cent upon a pre-war investment is not a high return. In purchasing power it is very much less than before the war. The cost of living has gone up for the railroad stockholders as for other peo-

ple. Railroad employes had their wages doubled because the cost of living had risen, and fight vigorously against reductions now that the cost of living has declined, but the stockholder is allowed no more, and the earnings available for dividends are very much less.

It is a well-known fact that 5½ per cent is below the going rate at which money loans today on good mortgage security, with an equity of 40 or 50 per cent to protect the lender. There is no such equity to protect railroad investments, and many railroads turn out to be poor investments. The recent history of Western Pacific and Denver & Rio Grande are cases in point.

There is no guaranty of 5½ per cent or undertaking on the part of the Government to make up any deficit below that rate. The consolidated earnings of all the properties for the first six months of 1921 were at the rate of 1.8 per cent per year, and for the full year probably will not exceed 3 per cent. The law names 5½ per cent as a return which the companies will be allowed to make if they can. It is a strange perversion to represent it as favoring railroads above businesses which have no restriction upon their earnings.

Market Value of Securities

One of the arguments by which critics seek to discredit the valuation of the Commission is that it is much in excess of the present market value of the outstanding bonds and stocks—it is said $7,000,000,000 above. We do not know whether these figures are correct or not, but it is true that railroad securities are very much depressed at this time. If, however, that is a good reason for scaling down payments upon them, the argument will apply to government bonds as well and justify paying them off at 85 to 90 cents on the dollar.

The reason in common for the depression of Liberty bonds and railroad securities has been the general state of the money market and the scarcity of new capital, owing to the great governmental expenditures, high taxation and high cost of living. Current interest rates upon new security issues have been much above the rates on old issues, including the Liberties, causing holders to sell the latter to buy the former. Many holders have found it necessary to sell in order to pay debts or living expenses. As the yield upon railroad stocks and bonds did not increase with the cost of living, the holders found their incomes diminishing in purchasing power, and market values declining.

The stock of the Pennsylvania railroad which has no water in it, was paying 6 per cent before the war. The purchasing value of those dividends became relatively less with the general rise of wages and prices, and last Spring the rate was reduced to 4 per cent. Naturally the market price of the stock has declined.

The preferred stock of the Chicago, Milwaukee & St. Paul company was sold to the public by the company years ago at par, $100 per share. Dividends have been suspended upon it, and the stock is changing hands in the market under $40 per share. There are people who seriously argue that this value should be adopted as the basis for rate-making in the future. They are too impatient; if the stock goes without dividends a few years longer it may decline to $20, or to the value of Russian government bonds.

It is true that railroad securities have been more depressed than Liberty bonds, and one reason is that up to this time there has been no nation-wide campaign to discredit the latter. It may come yet. If the idea should become prevalent that the Liberty bonds have passed into comparatively few hands, an agitation in favor of scaling them, or scaling the money in which they are payable, might gain considerable strength among the same element that has sought for years to discredit railroad securities.

Influence of Bankers

The ownership of railroad securities is with investors rather than with bankers, although savings banks are large holders of railroad bonds. Investment bankers are agencies through which a great many railroad securities have been distributed to the public. For the services rendered in accomplishing such sales the bankers have received commissions. No better way of distributing securities to the public than through the organizations experienced in such work has been found. Even the non-Partisan League administration of North Dakota has recently found it advisable to engage such services. Through the relationship thus established with security-holders it has frequently happened that the bankers have been called upon to serve upon railroad directorates and assume some responsibility in the management of railroad affairs. They have acted in good faith, representing the interests entrusted to their care, and the intimations that their influence has been harmful to the roads or the public belong in the category of suspicious and ignorant surmises.

The Pennsylvania railroad is owned by 140,000 stockholders of record, and many thousands more participate in supplying the capital it employs, through the bonds held by savings banks, insurance companies and numerous trust funds. It would be highly desirable to

have the ownership of all the roads distributed in like manner, and particularly among the railroad employes. Many of the companies have made special efforts to place their stock among their own employes, and all would be glad to afford helpful facilities. It is probable that the number of people interested in railroad bonds and stocks exceeds the number of railroad employes, and they are entitled to the same consideration at the hands of the public.

Distribution of Income.

We gave two months ago a table from Professor Friday's book upon Profits, Wages and Prices, showing the distribution of wealth added by the processes of manufacture, as compiled by him from the reports of corporations to the Government in the year 1917. That table is instructive, but inasmuch as it dealt only with the "value added" it does not give a complete picture of the distribution of the gross income of employers engaged in industry.

The opinion is often expressed that employers should continue to operate even though they are not finding sale for their products, in order to give employment for labor. The practicability of this policy may be judged from the following figures given out by the General Electric Company, showing the distribution of its income over a period of three years, and those the most prosperous years of its history. The figures show the average distribution of each dollar of gross receipts in the years 1918-19-20:

	Cents
Wages and salaries (paid to an average of 73,900 employes)	41.7
Materials, supplies, depreciation, operating charges and losses	40.6
Taxes	5.3
Surplus (used for enlarging plants, inventories and working capital)	4.7
Dividends to all stockholders (average number, 21,461)	4.0
Transportation, telephone and telegraph	2.5
Interest on borrowed capital	1.2
Total	100.00

This statement will show the necessity for a continuous inflow of money to keep the business in funds to operate. The costs of operation took over 91 per cent of the gross receipts as fast as they came, and the gross receipts aggregated hundreds of millions of dollars. It is impossible for such an organization to operate long without selling its products. The figures also show how small is the possibility of increasing wages at the expense of profits, even if all of the latter were devoted to that purpose in the case of one of the most prosperous companies in the country.

World National Debts in 1921

Nearly Ten Times as Much as at the Beginning of the War

By O. P. Austin
Statistician, The National City Bank of New York

World national debts in 1921 are nearly ten times as much as at the beginning of the war. The tabulation herewith presented shows the debts of one hundred principal countries and colonies of the world in the year preceding the war, 1913, and in the year of its close, 1918, also figures for 1919, and at the latest available date, 1921, wherever possible and in other cases 1920. The totals when transformed into United States dollars at the par value of the currencies of the countries named advanced from 43 billion dollars in 1913 to 205 billions in 1918, the closing year of the war, 295 billions in 1919, the first full peace year, and 383 billion dollars at the latest date for which figures are now available, indicating that the total of national indebtedness at the close of 1921 will approximate and perhaps exceed 400 billion dollars against the 43 billions of 1913.

The interest charges on these national debts which amounted to over 1½ billion dollars per annum in the pre-war period are now approximately 15 billion dollars per annum, though the fact that most of the governmental borrowings during and since the war have been drawn from their own people suggests that a larger share of the interest payments is now distributed at home than in the pre-war years when many of the national loans were placed in foreign countries.

The "debt habit", which was forced upon many governments during the war period, has been continued in certain countries since its close by the fact that governmental expenditures have been permitted to exceed the income from taxation, and with the creation of big annual deficits the aggregate of debts has continued to expand even down to the present time and in a very large proportion of the one hundred countries named the debt figures of 1920-21 materially exceed those at the close of the war.

This "deficit habit," caused in certain countries by the decrease in purchasing power of the currency in which expenses were estimated and taxation levied, has also resulted in further increases in the world's total of paper currency, supplied by the great banks of issue to their governments to enable them to meet the recurring deficits, and a tabulation of world currencies at the present time would likewise show large increases over those existing at the termination of the war.

All debt figures in the tabulation here presented have been transformed into United

States currency at the pre-war normal value of the respective currencies—the "par of exchange"—since the fact that the obligations in question are payable at dates many years distant would render impossible any other method of estimating their value.

Attention is especially called to the fact that statements of national debts for a given year are more distinctly "subject to revision" than those relating to other subjects, by reason of the fact that debt statements of most of the important countries are issued at frequent intervals—monthly or quarterly—and the official figures issued at a given month or quarter of the year often differ in some degree from those officially issued at a later date of the same year. The figures herewith presented are wherever possible drawn from official sources and in other cases from standard authorities, though those for 1921 are in certain instances necessarily based upon reports appearing in the economic journals and daily press.

NATIONAL DEBTS OF THE WORLD

In United States Dollars, Reduced at Normal (Pre-War) Value of the respective currencies.
(000,000 omitted)

	1913 Million Dollars	1918 Million Dollars	1919 Million Dollars	1921 Million Dollars
Argentina	$732	$866	$576	$758
Australia	81	1,382	1,586	1,956
Aust. States	1,349	1,824	1,854	k 1,859
Austria (j)	2,152	15,807	16,910	15,834
Algeria	35	g 35	g 35	g 35
Barbadoes	....	2	2	k 2
Belgium	722	i 1,902	1,902	4,670
Belgian Congo	53	i 67	67	i 67
Bolivia	19	26	27	i 27
Brazil	a 664	1,145	1,133	969
Brit. East Africa	1	2	2	k 2
British Guiana	4	5	5	k 5
British Honduras	1	1	1	1
Brit. Colonies (S)	8	12	13	14
Bulgaria	a 135	900	1,432	i 1,432
Canada	483	1,863	2,250	2,345
Ceylon	30	27	24	i 24
Chile	210	228	231	240
China	969	e 1,061	1,886	i 1,886
Chosen	22	47	53	k 59
Colombia	24	23	23	39
Costa Rica	16	f 20	30	i 30
Cuba	c 67	83	84	87
Cyprus	1	1	1	k 1
Czecho-Slovakia	....	....	k 7,000	9,135
Denmark	96	162	210	215
Dom. Republic	c 13	14	13	k 13
Dutch E. Indies	no data	e 92	170	k 149
Ecuador	18	26	28	i 28
Egypt	459	460	469	k 461
Finland	34	120	357	382
France	6,346	30,400	40,000	51,000
French Col. (S)	a 211	579	580	i 580
Fr. Indochina	47	g 47	g 47	g 47
Germany	1,194	39,200	48,552	71,000
German States	3,855	f 4,341	4,500	k 8,300
German Colonies	32	g 32	g 32	g 32
Gold Coast	12	16	16	k 16
Greece	207	248	469	812
Guatemala	n 18	f 16	17	18
Haiti	c 30	24	32	i 32
Hawaii	e 8	9	9	k 11
Honduras (q)	91	29	28	k 30
Hong Kong	7	7	7	k 7
Hungary	j 1,731	8,514	9,412	14,200
Iceland	47	51	53	i 53
India, British	a1,475	1,546	2,310	2,263
Italy	2,921	12,000	13,102	18,650
Jamaica	18	18	18	k 19
Japan	1,242	1,246	1,300	1,713
Jugo-Slavia	r 174	546	705	k 705
Latvia	....	....	11	i 11
Leeward Islands	1	1	1	k 1
Liberia	c 2	2	2	2
Lithuania	....	....	10	10
Luxemburg	b 2	f 9	k 25	k 25
Madagascar	18	i 20	20	i 20
Malay States				
Federated	6	8	8	k 8
Other	....	2	2	k 1
Mauritius	6	6	6	k 6
Mexico	a 222	377	409	o 282
Morocco	60	80	k 103	k 103
Netherlands	c 462	652	981	1,046
Newfoundland	27	35	42	i 42
New Zealand	438	734	856	978
Nicaragua	9	16	10	5
Nigeria	40	41	41	57
Norway	97	197	268	k 314
Nyasaland	....	15	15	i 15
Panama	.3	7	7	3
Paraguay	13	14	9	9
Persia	32	41	45	46
Peru	34	28	h 28	k 29
Philippines	12	f 20	20	21
Poland	....	....	k36,650	69,000
Portugal	948	1,290	1,294	1,880
Porto Rico	7	8	9	k 10
Roumania	317	1,022	4,100	5,270
Russia	c4,538	f 22,774	f 22,774	f 22,774
Salvador	10	11	14	18
Siam	28	33	33	36
Sierra Leone	6	8	8	k 8
Spain	1,814	1,661	1,986	2,335
Straits Settlem'ts.	34	68	72	i 72
Sweden	161	268	298	340
Switzerland	23	205	341	t 370
Trinidad	5	8	1	k 1
Tunis	45	d 69	d 69	d 69
Turkey	676	2,000	2,310	i 2,310
Uganda	1	1	1	k 1
Union S. Africa	573	731	801	k 847
United Kingdom	3,486	28,613	36,401	37,910
United States	1,029	17,005	25,334	23,922
Uruguay	138	164	163	172
Venezuela	35	29	27	41
Windward Islands	3	1	1	k 1
Total	43,362.3	205,396	295,070	382,634

a 1912, b 1910, c 1914, d 1915, e 1916, f 1917, g 1913, h 1918, i 1919, k 1920. j Includes share of Austro-Hungarian debt. n Exclusive of internal debt not available. o Statement of Minister of Finance, June 30, 1921. q Exclusive of arrears of interest stated in 1921 at $108,000,000. r Serbian debt 1913. S Exclusive of those separately named. t Exclusive of railway debts stated at $430,000,000.

THE NATIONAL CITY BANK OF NEW YORK